



Oklahoma Economic Report™

News and analysis of Oklahoma's economy

A publication of the Office of the State Treasurer • Treasurer Ken Miller, Ph.D.

Property deeds

The evidence keeps mounting that incentives work. In its second year, the incentive pay plan for the state treasurer's unclaimed property program again resulted in record returns to Oklahomans.

Started on July 1, 2013, the beginning of FY-14, the incentive pay program ties money returned to rightful owners to the compensation of unclaimed property division employees. Those who meet or exceed clearly established goals have the opportunity to increase their compensation by up to 25 percent.

The results are indisputable. The year

prior to the incentive program's launch, FY-13, the division returned a then-record high \$18.8 million in cash and stock. In FY-14, the amount returned increased to \$30.2 million, up by almost 61 percent. In the recently-completed fiscal year, FY-15, total returns jumped to \$38.7 million, 106 percent above those of pre-incentive FY-13.

Consumer protection

Unclaimed property programs are operated by all 50 state governments. Designed as a consumer protection, they return abandoned cash, stock, royalties and like to the rightful owners.

Businesses that lose contact with the owners are required to remit the funds and identifying information to the states, which then seek out and reunite the owners with their property.

If not for such programs, the owners would likely never receive their lost money. The law requires businesses try to find the owners before they remit the funds to the state, so every dollar received by unclaimed property programs arrives after the businesses have been unsuccessful in finding those to whom it belongs.

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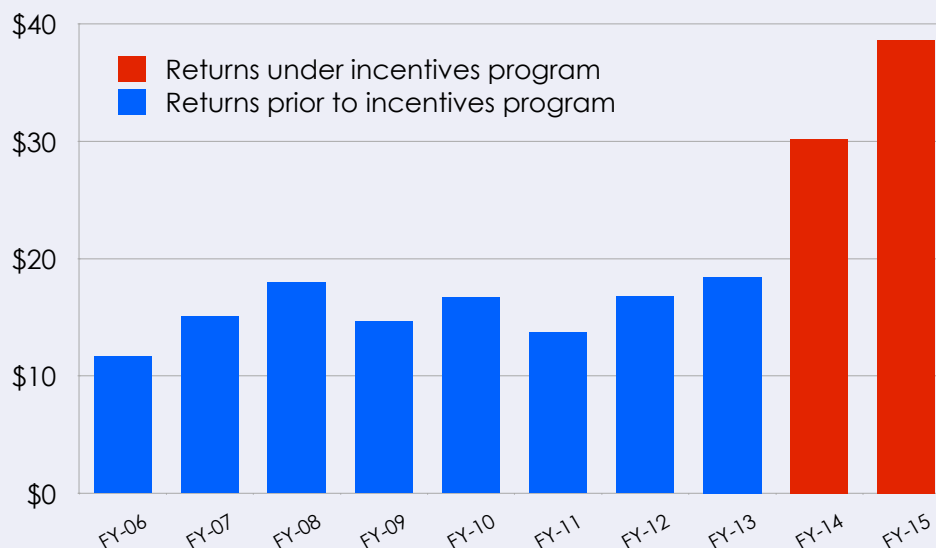
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Editor

Tim Allen, Deputy Treasurer for Communications & Program Administration

The Effect of Incentives on Total Unclaimed Property Returns
(in millions)



Source: Office of the State Treasurer, Internal Auditor



Congressman's Commentary

By U.S. Congressman Tom Cole

The case for entitlement reform

Perhaps the most daunting issue that we face as Americans is the massive amount of public debt that exists and the rate at which it is growing. Certainly, the staggering number of nearly \$18.4 trillion calls for real solutions to change the debt trajectory. In an effort to return our nation to fiscally-firm footing, it's important to consider how we reached this point while also recognizing the areas where we've been successful.

As Americans are well aware, debt is accumulated when spending outweighs the incoming revenue. If debt is allowed to grow because spending behavior is not addressed, it leads to an economically unsustainable situation and the solutions obviously become much more challenging. In order to change the debt trajectory, it requires that we uncover what's driving it upwards.

Based on the nation's massive and climbing debt, it would certainly seem that nothing has been done to correct it. However, I would argue that not enough of the right solutions have been proposed and implemented—solutions that address what's actually driving our debt.

Federal spending falls into three general categories: discretionary, mandatory and interest. During the annual budgeting and appropriations

process, lawmakers set the discretionary side of spending by writing a budget and then passing appropriations bills to fund various areas of government. As a member of the U.S. House of Representatives, I sit on both committees that are directly involved in this process – Budget and Appropriations.

“While tough decisions have been made to rein in discretionary spending, mandatory spending is growing at an alarming rate.”

The problem is that mandatory spending is by far the largest category, and it's essentially left to its own devices unless and until lawmakers push for and agree on reforms. Because this category is made up of entitlement programs like Social Security, Medicare and Medicaid that require the government to automatically pay out benefits to Americans, it is not part of the annual appropriations process—where real cuts to discretionary spending have taken place each fiscal year since Republicans were given control of the House of Representatives in the



2010 election. In 1970, discretionary spending made up approximately 62 percent of total spending with only 31 percent spent on mandatory. Those proportions have shifted dramatically. Last year, mandatory spending made up approximately 60 percent and discretionary only accounted for 33 percent. Whereas tough decisions have been made to rein in discretionary spending, mandatory spending is growing at an alarming rate. It's an economic reality that cannot be ignored.

While I wish I could report that we have solved the crisis and averted the imminent bankruptcy of our nation's entitlement programs, I want to assure you that conversations are taking place on both sides of the aisle. As a part of the “Doc Fix” legislation we passed earlier this year, Republicans and Democrats both agreed on some small reforms so that seniors who earn more than \$133,000 of income (or couples earning more

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Cole

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than \$266,000) pay a little more for their benefits. In addition, the Budget Conference Report included language urging Congress and the president to work together to find solutions, and the House Budget Committee has started an initiative meant to encourage discussion on worthwhile reforms to programs like Social Security, Medicare and Medicaid.

One effort of which I am particularly hopeful is a bipartisan piece of legislation that I helped introduce in the previous and current Congresses to save Social Security. In March of this year, I joined with my Democrat House colleague John Delaney to reintroduce a bill that calls for a bicameral and bipartisan commission to discuss and propose solutions for long-term Social Security solvency. Once proposed, Congress would

be required to have an up or down vote on the commission's proposal. Forcing Congress to act would be a good start to solving our problem.

Given the evidence that mandatory spending is clearly driving our debt, I believe it to be of paramount importance that lawmakers work together to prioritize entitlement reform. I remain hopeful that we can and will.

Property

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Oklahoma's unclaimed property program was started in 1967. Originally established at the Oklahoma Tax Commission, it was transferred to the

state treasurer's office in 2000. Since then, more than \$250 million has been returned through the program.

Today, the program has total liabilities of \$585 million belonging to more than 900,000 individuals and businesses. The service by the state treasurer's office is free; there is never a charge for claiming and receiving unclaimed property.

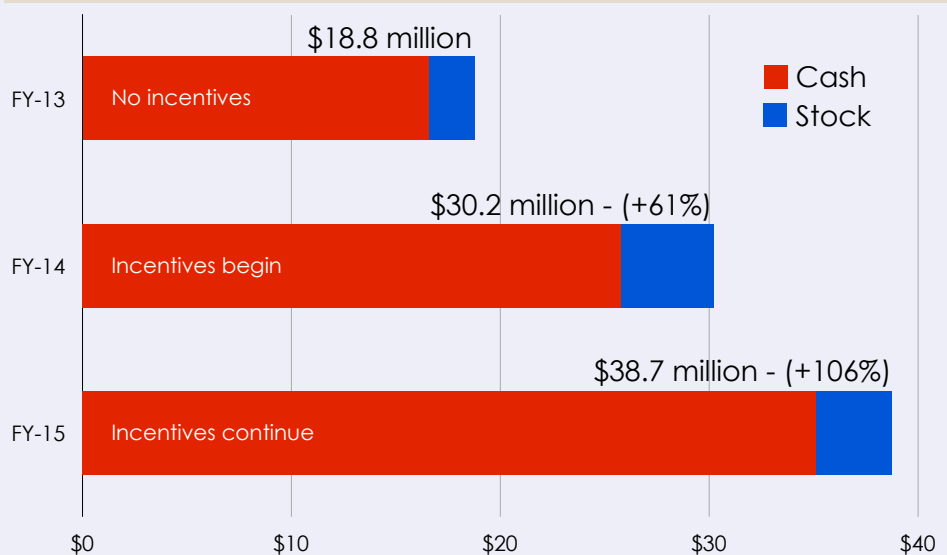
Boosting performance

The motto in the unclaimed property division is "More money returned is more money earned." The direct link between unclaimed property going out the door to its rightful owners and the size of employee paychecks has produced outstanding results.

Under the incentive pay program, unclaimed property division employees earn points based on the number of claims processed and the amount of money returned to its rightful owners. Goals are set on a quarterly and annual basis with incentive payments made at those times.

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Unclaimed Property Annual Returns (in millions)



Source: Office of the State Treasurer, Internal Auditor



Property

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Payment of overtime was eliminated when the incentive program was initiated to encourage more efficient use of time and offset the cost of the new program. During FY-13, when \$18.8 million was returned by the program, overtime payments totaled \$44,657. In FY-14, the first year of the incentive program when \$30.2 million was returned, incentive payments totaled \$67,593. In FY-15, when \$38.7 million was returned, incentive payments were \$85,772.

When salaries and incentive payments for each fiscal year are combined and compared to the amount of unclaimed property returned, it shows labor costs for each dollar returned have plummeted under the incentive program. In FY-13, the year prior to the start of the program, the division spent 3.5 cents in salary and overtime for each dollar returned. In the first year of incentive payments, the cost dropped to 2.4 cents per dollar returned. In FY-15, the cost dropped even lower to only 1.9 cents per dollar returned.

The goal during the first year of the incentive program was \$30 million in total returns. It was raised to \$36 million the following year, and is set at \$38 million during FY-16, the current fiscal year.

Reaching out

When the incentive program was launched, increased outreach was also begun to help make more people aware of unclaimed property.

Since at least 1982, the state has published in state newspapers the latest list of names and last known addresses of those with unclaimed property. The

law requires the publication of names at least two times per year, but it has become common for publication to be made four times per year.

The latest statewide list of names is distributed as an insert in the *Oklahoman* and *Tulsa World*. In rural areas, one newspaper in each county publishes an ad containing the names of those with unclaimed property within that county.

Since 1999, the ads have publicized the unclaimed property website, www.yourmoney.ok.gov, which contains a searchable database of those with unclaimed property. At the site, claims can be initiated and their progress monitored.

From 2001 through 2012, the treasurer's office operated booths at the Oklahoma City and Tulsa state fairs. Workers with

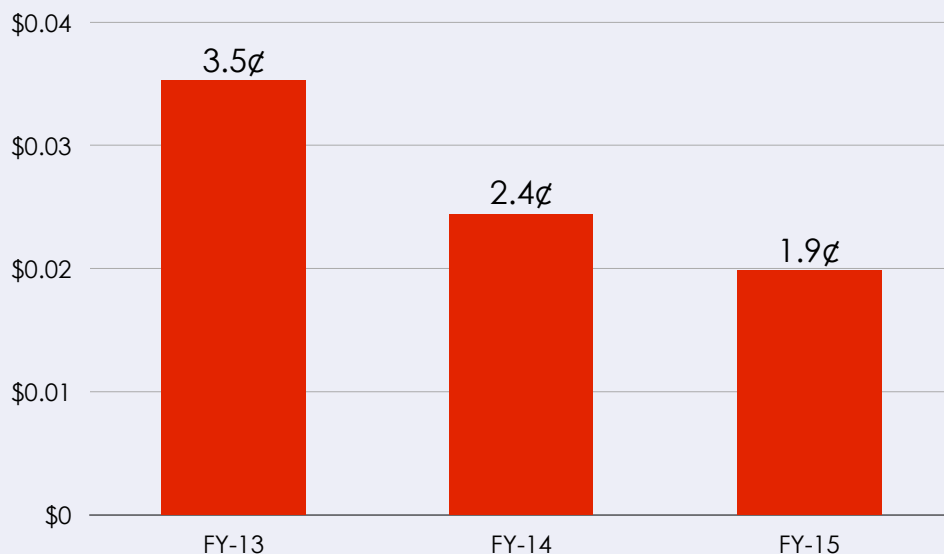
laptop computers conducted more than 117,000 searches for unclaimed property for fair attendees, identifying more than \$5.4 million belonging to 12,305 people.

The state fair appearances were suspended at the start of the incentive pay program because it was much more productive to keep employees on the job in the Capitol processing claims. Records showed overtime payments jumped and productivity dropped sharply during September and early October while the state fairs were underway.

At the start of FY-13, two new components were added to the outreach – internet and radio. While newspaper advertising has historically generated a majority of the claims filed, the numbers have begun to shrink in recent years as

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Labor Cost for Each Unclaimed Property Dollar Returned



Source: Office of the State Treasurer, Internal Auditor



Property

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more people shift from reading printed newspapers to electronic devices.

Internet advertising uses a combination of keyword placements on search engines and banner ads that, when clicked on, route users directly to www.yourmoney.ok.gov. The radio public service announcements told listeners about the program and urged them to visit the website.

In the coming year, radio will be replaced with television public service announcements to increase awareness of unclaimed property and the online search engine. The new campaign will feature an improved website with a more user-friendly interface.

Under attack

The success of the program has drawn its detractors, both locally and on a national scale.

During the past two legislative sessions, elements of the insurance industry have attempted to get bills passed that would exempt the industry from complying with the rules every other business has to follow on reporting and remitting unclaimed property to the state. The effort in Oklahoma is similar to attempts underway in several other states.

While the anti-consumer bills were bottled up in committees last session, backers have indicated they'll try again in the coming legislative session. If they are successful, it could prevent thousands of Oklahomans from

receiving millions of dollars they are due from the proceeds of life insurance policies.

Meanwhile, in June, a lawsuit was filed in Oklahoma County District

Court alleging the program violates Oklahoma law, the state constitution and the U.S. constitution. The suit was thrown out by District Judge Tom Prince on September 25.

“**The ongoing initiatives have clearly been successful and are sure to generate even more returns.**”

Legislative use

It has long been acknowledged that a portion of unclaimed property funds can and should be used for a public purpose. The concept is at the core of the program. Not all unclaimed property will be returned to its owners for a number of reasons, including that the owner has died and left no heirs.

Historically, the program has provided \$10 million each year to the state budget, but from time to time the Legislature has come for more. The law requires the state treasurer determine how much is needed in reserve funds each year to pay pending and expected claims. Amounts above the determined reserves are available for use by the Legislature.

However, the most important point is that no owner of unclaimed property or their heirs ever gives up the right to claim and receive their money.

Treasurer Ken Miller has long cautioned the Legislature on use of the funds, saying the money should only be used for non-recurring expenses, such as

capital improvements, because the amounts received and available each year can vary greatly. However, as the Legislature has reduced recurring revenue, the thirst for additional money to avoid budget cuts has grown.

In the past 10 years, the Legislature has appropriated \$227 million in addition to the \$100 million that was automatically provided. In each of those years, the money was appropriated for recurring expenses of the government. For the current fiscal year, the Legislature took \$50 million extra from unclaimed property to make the budget balance. It took \$40 million the previous year and \$35 million the year before that.

During the past decade, the amount of unclaimed property received by the state has increased from the prior year seven times and fallen three times. Increases have ranged from 63 percent to 5.3 percent, while decreases have ranged from 4.2 percent to 14.8 percent. Add to that the large annual increases in amounts returned to owners during the past two years and it is easy to see how this popular source of plug-the-hole money for the Legislature might soon be unavailable.

Work in progress

The ongoing incentive pay program and enhanced outreach efforts have clearly been successful and are sure to generate even more returns.

And while opponents would seek to dismantle this premier consumer protection service, the program will continue to reunite Oklahomans with their lost money and look for new ways to return even more.



Monthly Gross Receipts & General Revenue compared

August Gross Receipts to the Treasury totalled \$866.55 million, while the General Revenue Fund (GRF), as reported by the Office of Management and Enterprise Services, received \$407 million, or 47% of the total.

The GRF received between 35.7% and 53.6% of monthly gross receipts during the past 12 months.

From August gross receipts, the GRF received:

- Personal income tax: 60.1%
- Corporate income tax: 64.7%
- Sales tax: 43.4%
- Gross production-Gas: 51%
- Gross production-Oil: None
- Motor vehicle tax: 26.3%
- Other sources: 48.9%

August GRF allocations were below the estimate by \$22.9 million or 5.3%. Fiscal year-to-date collections are above the estimate by \$300,000 or 0.04%.

August insurance premium taxes totaled \$3.75 million, a decrease of \$730,000, or 16.3%, from the prior year.

Tribal gaming fees generated \$11.53 million during the month, up by \$712,000, or 6.6%, from last August.

Gross Receipts to the Treasury continue to fall in August

Gross Receipts to the Treasury in August dropped 3.5 percent below collections from the same month of the prior year. This is the fourth consecutive month and the fifth time in six months the year-over-year comparison has been negative, State Treasurer Ken Miller announced.

As has been the case for nine of the past 10 months, collections from oil and natural gas production taxes were lower, and that was the primary reason for the downturn in August. Sales tax collections for the month were also lower, while gross income tax and motor

vehicle receipts showed growth.

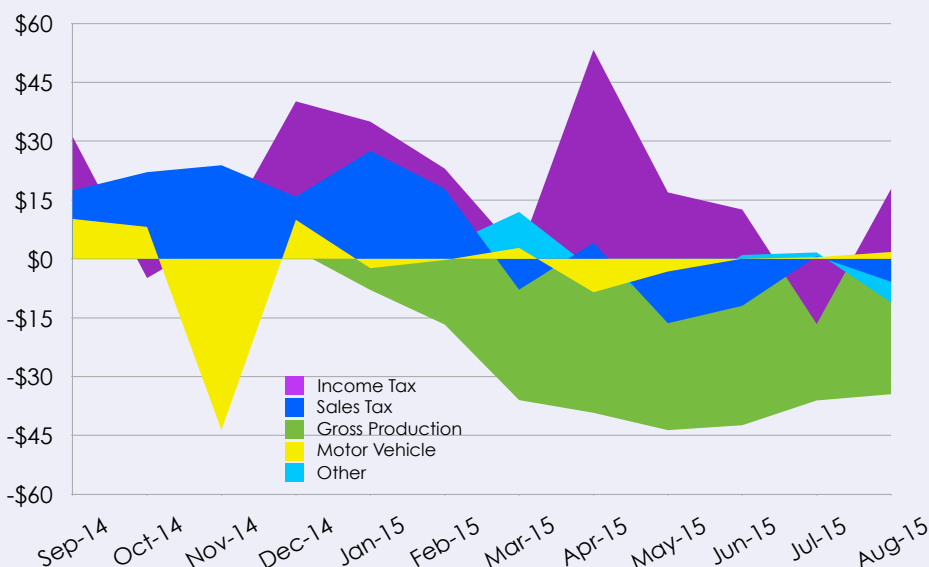
“If there is good news in the August gross receipts report, it’s that the oil price decline hasn’t yet erased all of the economic gains of the past year,” Miller said. “In spite of job losses in the energy sector, the state unemployment rate remains relatively low and the spillover effect of the price drop is reasonably small at this point.”

August gross production collections are from oil field activity in June, when the average price of West Texas

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“If there is good news in the August report, it’s that the oil price decline hasn’t yet erased all of the economic gains of the past year.”

Monthly Gross Receipts vs. Prior Year



Dollar change (in millions) from prior year

Source: Office of the State Treasurer



Revenue

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Intermediate crude oil was \$59.82 per barrel. Oil prices have since fallen to below \$39 and were at less than \$45 per barrel earlier this week. The impact of those lower prices will be seen in the coming months.

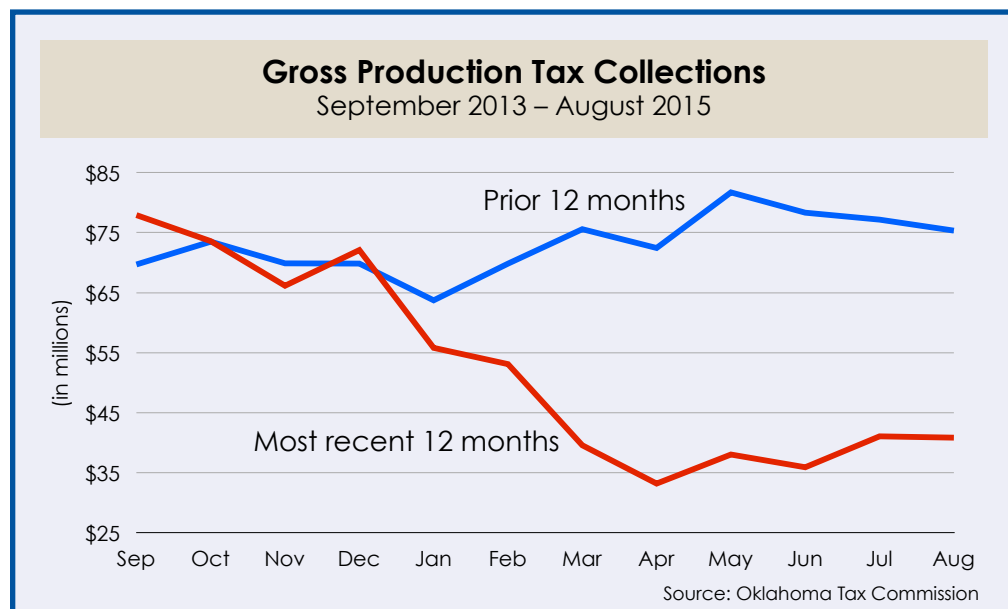
Gross production collections were off by almost 46 percent for the month, and sales taxes shrank by 1.5 percent. Combined personal and corporate income tax collections for the month

were up by 7.4 percent, while motor vehicle collections grew by 2.7 percent.

Gross receipts for the past 12 months total \$11.9 billion, with a growth rate of 0.6 percent compared to the prior 12 months. While the rate of growth in 12-month collections has remained positive for almost five years, the current rate is the lowest since October 2010 and compares to 12-month growth of 4.6 percent in August of last year.

About Gross Receipts to the Treasury

Since March 2011, the Treasurer's Office has issued the monthly Gross Receipts to the Treasury report, which provides a timely and broad view of the state's macro economy. It is provided in conjunction with the General Revenue Fund allocation report from the Office of Management and Enterprise Services.



Oklahoma jobless rate increases to 4.6 percent in August

Oklahoma's seasonally-adjusted unemployment rate was set at 4.6 percent in August, up by one-tenth of one percentage point from July, according to the Oklahoma Employment Security Commission.

The number of those listed as unemployed decreased by 34 from July, but was up by 7,480 from last August, when the jobless rate was set at 4.1 percent. Oklahoma's seasonally-adjusted total nonfarm employment declined by 3,600 jobs in August.

The national unemployment rate was set at 5.1 percent in August.

Oklahoma Unemployment Report				
OKLAHOMA	Unemp. rate*	Labor force*	Employment*	Unemployment*
Aug '15	4.6%	1,843,048	1,759,183	83,865
July '15	4.5%	1,853,564	1,769,665	83,899
June '15	4.5%	1,862,461	1,779,424	83,037
May '15	4.3%	1,863,285	1,783,101	80,184
April '15	4.1%	1,851,003	1,775,355	75,648
March '15	3.9%	1,832,611	1,761,551	71,060

* Data adjusted for seasonal factors

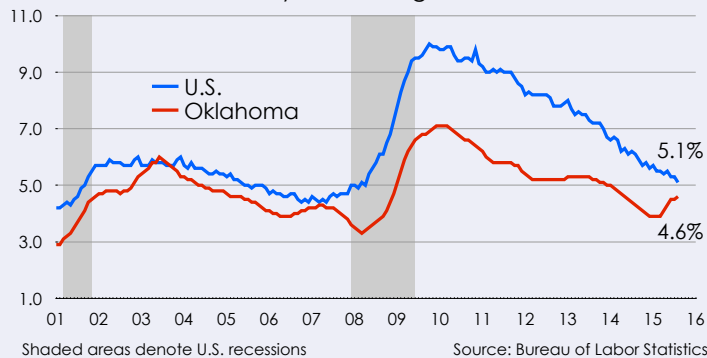
Source: OESC



Economic Indicators

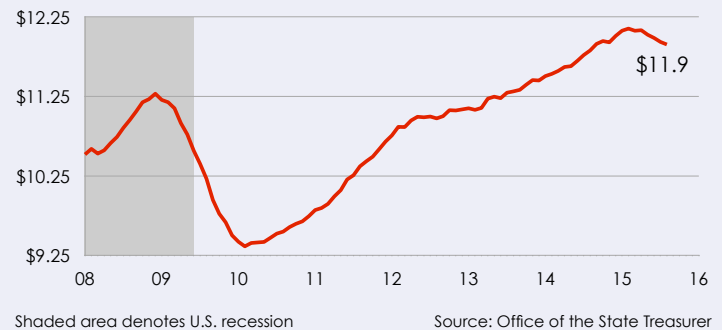
Unemployment Rate

January 2001 – August 2015



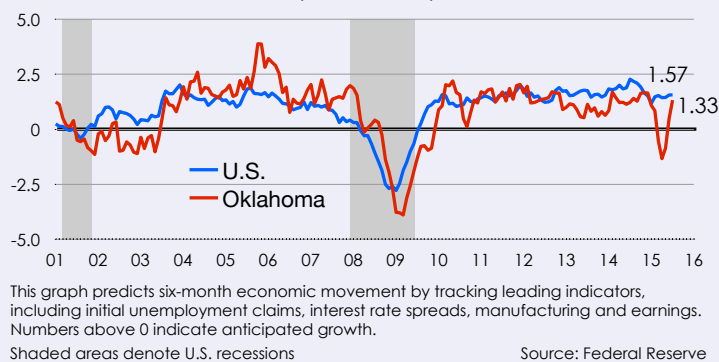
Oklahoma 12-Month Gross Receipts

January 2008 – August 2015
(in billions)



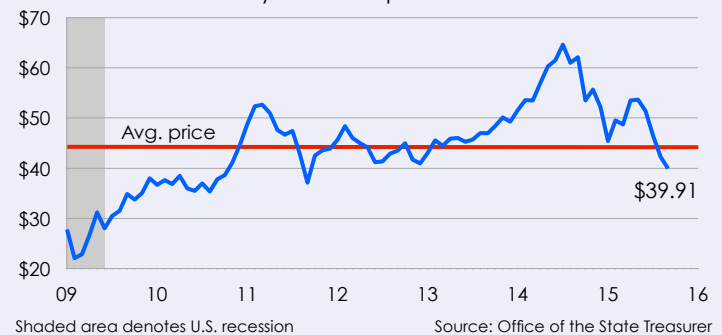
Leading Economic Index

January 2001 – July 2015



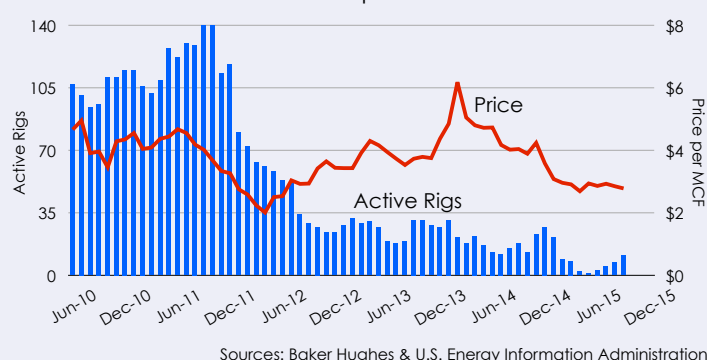
Oklahoma Stock Index

Top 23 capitalized companies
January 2009 – September 2015



Oklahoma Natural Gas Prices & Active Rigs

June 2010 – September 2015



Oklahoma Oil Prices & Active Rigs

June 2010 – September 2015

